

Oil prices are on the minds of many Americans as gas hits \$4 a gallon, and continues to surge. How high can prices go? How can we solve these problems? What, or who, is to blame? Part of the answer lies in understanding bubbles and monetary inflation, but especially the Federal Reserve System. The Federal Reserve is charged with controlling inflation through interest rate manipulation, however, many fail to realize that creating money, and therefore inflation, is really its only tool. When the Federal Reserve inflates the dollar as drastically as it has in the past few decades, the first users of the newly created money go in search of investments for their dollars. They must invest this money quickly and aggressively before it loses value. This causes certain sectors to expand beyond what would naturally occur in the free market. Eventually the sector overheats and the bubble bursts. Overinvestment in dotcoms eventually led to a collapse of the NASDAQ. Next we had the housing bubble, and now we are seeing the price of oil being bid up in the creation of another new bubble. Investors are now looking to commodities like oil, for stability and growth as they pull capital out of real estate. This increased demand for investment vehicles related to oil contributes to driving up the price of the actual product. If the Fed continues with its bubble blowing policies of the past, the new commodities bubble will continue to grow, gas prices will continue to go up, as the value of your dollars go down. We will see an overinvestment in these commodities as solutions are desperately sought for a supply shortage, which is only part of the problem. Make no mistake, though, this is not the free market at work. Government manipulations have added levels of complication and unintended consequences to the marketplace. This is not the time for members of Congress to take political potshots at each other, or to imagine that the free market is somehow to blame. This is the time to understand and fix problems. That begins with making sure the decision makers have a firm grasp on the causes of the problems and possible effects of their decisions. This is absolutely crucial if we want to get it right this time. That is why I am in the process of calling for hearings on Capitol Hill on how the falling value of the dollar affects energy prices. Governments need to get out of the way and let the people get back to work so that we can get our economy back on stable footing. Our destructive regulatory environment, confiscatory tax policies, and managed, rather than free trade have chased many businesses overseas. The bottom line is average Americans are being seriously hurt by these flawed policies, and they are not getting good information about the true dynamics at work. The important thing now is to get the diagnosis absolutely correct so we can administer the appropriate treatment and move on to a healthier economic future. To do this it is absolutely necessary to address the subjects of central banking and fiat money.